CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Hamilton

Date Released: Fall 2006

New Home Market

Starts to Plateau

Rising home prices, slower population growth, and greater choice in the resale home market will yield 3,000 home starts in 2007. While this represents a strong increase (of seven per cent) from the anticipated 2006 level, it will be below the preceding ten-year annual average of about 3,300 starts.

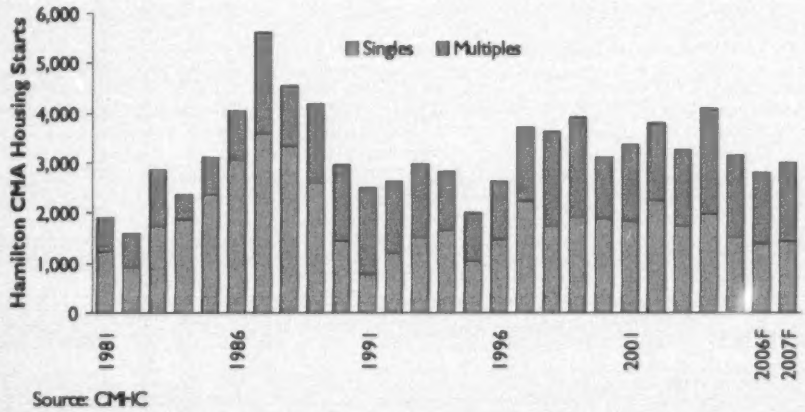
Wealth accumulation among ageing baby boomers will continue to trigger move-up buying activity and drive up demand for new detached homes. Expect to see single-detached starts edge up by nearly four per cent to 1,450 units in 2007.

With new single-detached homes becoming more expensive, expect the less pricey multiple-family dwelling category to fare well in 2007. Multiple-family home starts will jump by nearly 11 per cent to 1,550 starts.

There will be a growing number of empty nesters (those whose children have left home) who will be

Figure 1

Starts Will Reach a Plateau



Source: CMHC

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looking to downsize into smaller homes in the years ahead. Examples of these homes are town houses and condominium apartments. Anecdotal evidence points to an increase in construction of luxury condominiums apartments in more desirable neighbourhoods like Ancaster. This would imply that although empty nesters are looking to downsize, they are unwilling to compromise on price or quality.

A steady increase in the supply of new listings in the resale market will increase product choice both in terms of home type and price. Slow pace of growth in new home prices will be the ensuing effect. The growth in New Home Price Index (NHPI) which captures the cost of land, labour and capital, will slow to 5.5 per cent in 2007.

While overall new home price growth is expected to edge down next year, land constraints and high demand are expected to keep new single-detached home prices growing at double-digit levels. The average new detached home price is expected to reach $449,000 in 2007, representing a jump of ten per cent from the expected level in 2006.

Expect to see an increase in sales of modestly priced townhouses and condominium apartments in 2007. Demand will still remain strong for detached homes with the bulk of the buying likely to originate from wealthy baby boomers and home buyers from Toronto who are looking to escape rising house prices there.

Hamilton's close proximity to Toronto's downtown business core, linked via the GO transit system, will prove to be an added incentive for Torontonians looking to move out of expensive neighbourhoods in the Toronto CMA.

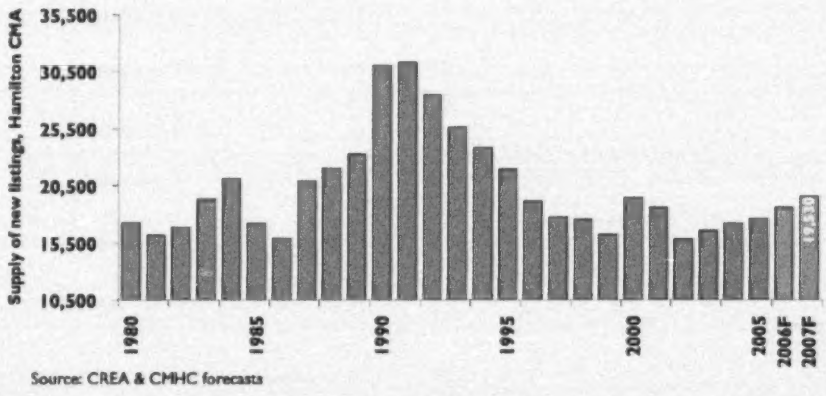
The supply of new listings have been edging higher since the end of 2004. More people are being enticed to list their homes for sale in a hot housing market which has seen an average annual price growth of over six per cent since the turn of this century. Expect to see new listings increase by five per cent to 19,530 in 2007. Despite the increase, listings will still be below the high level seen in the mid-1990s.

The ensuing effect of high sales and low new listings is a tight resale home market. Market tightness is measured by the sales to new listings ratio (SNLR). While most housing markets in Ontario are headed towards balanced market conditions, Hamilton's market is still poised to remain strongly in favour of sellers. A sellers' market is denoted by a SNLR above 55 per cent. If the ratio falls below 55 per cent, then the resale market is considered balanced. Hamilton SNLR is expected to remain high at 67 per cent in 2007. This makes Hamilton one of the tightest resale home markets in Ontario. For sellers , this would imply bidding wars, above-inflation price growth and shorter listing periods. For buyers, it implies unconditional offers and bids above the asking price.

The average resale home price is expected to reach $261,000 in 2007 - five per cent above the level forecasted for 2006 and the increase is expected to be above the general rate of inflation. Detached home prices are expected to increase well above the general forecast increase.

Figure 2

New Listings Starting to Grow



Source: CREA & CMHC forecasts

Resale Market

Sales to Remain Strong

A stable employment outlook, lower house prices compared to new homes, and low mortgage rates are likely to keep resale home sales high in 2007. Sales are expected to reach 13,080 next year - down marginally by 2.8 per cent from the expected level in 2006. The level in 2007 will be the second highest on record.

Economic Overview

Strong Employment

Hamilton's manufacturing sector employs nearly 20 per cent of its workforce. Nearly 40 per cent of the manufacturing jobs are within the primary manufacturing sector (steel), according to Service Canada. This strong reliance on a single sector will make Hamilton's economy susceptible to volatility in global demand for manufacturing products and exchange rate fluctuations. Following the restructuring of Stelco and take over of Dofasco, the steel giants are expected to perform better in the future. With resurgent global demand for steel from places like India and China, this sector is expected to recover and perform well in 2007. Employment in the services sector, which has shown steady growth in recent years, is also expected to remain high. Total employment, as a result, is expected to grow by 1.6 per cent in 2007.

Ageing Population

Like the rest of Canada, Hamilton's economy is faced with the problem of an ageing population. This has several implications on housing demand. Ageing baby boomers are typically wealthier and home buying activity of more expensive homes is high among this group. Judging by the rise in average new detached home prices in markets such as Ancaster and Burlington, the purchasing power of ageing baby boomers is strong. As population ages and growth slows down, the growth in labour force will also decline. The net result is a fall in first-time home buyers - which are necessary to sustain housing demand in the long run. Hamilton's labour force is expected to grow in line with population growth and will increase by just one per cent in 2007.

Net migration is expected to moderate and reach a level of 4,000 persons in 2007. International migration, which rose in 2005, is expected to make up the largest share of migrants to Hamilton.

Consumer Confidence

Rising gas prices have posed a challenge to consumer confidence so far this year. This is illustrated by a downward trend in the Ontario Index of Consumer Attitudes in the first eight months of 2006. However, consumer spending in general merchandise across Ontario has remained healthy.

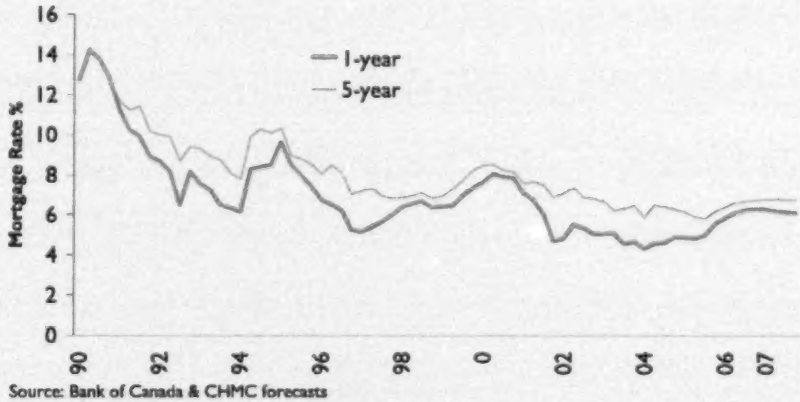
Mortgage Rates Have Peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Figure 3

Mortgage Rates Will Level Off



Source: Bank of Canada & CHMC forecasts

FORECAST SUMMARY
HAMILTON CENSUS METROPOLITAN AREA
Fall 2006

NEW HOME MARKET	2005	2006F	2007F	% Change
Starts				
Single-detached	1,502	1,400	1,450	-3.6%
Multi-family	1,643	1,400	1,550	10.7%
Total	3,145	2,800	3,000	7.0%
Average New House Price				
Single-detached	$369,808	$408,500	$449,000	9.9%
RESALE MARKET				
Hamilton-Burlington and District REB				
MLS[1] Sales	13,565	13,180	13,080	-0.8%
MLS New Listings	17,646	18,600	19,530	5.0%
Sales-to-Listings Ratio	76.9%	71.0%	67.0%	--
MLS Average Price	$229,753	$248,000	$261,000	5.2%
ECONOMIC OVERVIEW				
Mortgage Rate (1 year term)	5.06	6.27	5.50 - 6.50	--
Mortgage Rate (3 year term)	5.59	6.45	5.75 - 6.75	--
Mortgage Rate (5 year term)	5.99	6.67	6.00 - 7.00	--
Employed (000's)	365.0	374.0	380.0	1.1%
Employment Growth (000's)	-7.0	9.0	6.0	--
Net Migration	4000F	4000F	4000F	0.0%

Sources: CREA, Hamilton-Burlington and District Real Estate Board, Statistics Canada, and Conference Board of Canada

1 Multiple Listings Service (MLS) is a registered certification mark own by the Canadian Real Estate association (CREA)

F-Forecast

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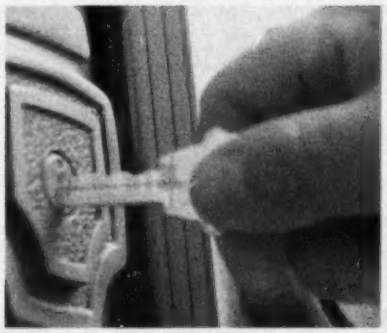

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